2018 Changes due to the Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, the President of the United States signed into law major tax reform in the Tax Cuts and Jobs Act (TCJA). The TCJA made the most drastic tax revisions in 30 years. Here are some of the more common changes that will affect your 2018 tax return.

Changes affecting most taxpayers

Tax rates reduced. The 15% tax bracket has been reduced to 12%, the 25% bracket has been reduced to 22%, the 28% bracket has been reduced to 24%, the 33% bracket has been reduced to 32%, and the maximum tax bracket is now 37% rather than 39.6%.

Single

Taxable Income	Tax Bracket
$0 – $9,525	10%
$9,526 – $38,700	12%
$38,701 – $82,500	22%
$82,501 – $157,500	24%
$157,501 – $200,000	32%
$200,001 – $500,000	35%
$500,001 or more	37%

Married Filing Jointly or Qualifying Widow(er)

Taxable Income	Tax Bracket
$0 – $19,050	10%
$19,051 – $77,400	12%
$77,401 – $165,000	22%
$165,001 – $315,000	24%
$315,001 – $400,000	32%
$400,001 – $600,000	35%
$600,001 or more	37%

Head of Household

Taxable Income	Tax Bracket
$0 – $13,600	10%
$13,601 – $51,800	12%
$51,801 – $82,500	22%
$82,501 – $157,500	24%
$157,501 – $200,000	32%
$200,001 – $500,000	35%
$500,001 or more	37%

Married Filing Separately

Taxable Income	Tax Bracket
$0 – $9,525	10%
$9,526 – $38,700	12%
$38,701 – $82,500	22%
$82,501 – $157,500	24%
$157,501 – $200,000	32%
$200,001 – $300,000	35%
$300,001 or more	37%

Standard deduction increase. The standard deduction for most returns has been almost doubled over the amount that was allowed last year. The standard deduction for Married Filing Jointly and Qualifying Widow(er) returns is $24,000, Single and Married Filing Separately returns is $12,000, and Head of Household returns is $18,000. An additional amount for being over 65 or blind will still be allowed. Because of this change, many taxpayers will find that using the standard deduction, instead of itemizing deductions, will give them a better result.

Personal exemption rate is reduced to zero. Last year, a personal exemption amount of $4,050 per person could be used to reduce taxable income. This personal exemption amount has been reduced to zero for 2018 through 2025. Large families will obviously be affected most.

Increase in Child Tax Credit. The Child Tax Credit (CTC) has been increased from $1,000 to $2,000 for 2018. Many more taxpayers will be able to claim this credit because the income limit has been increased to $400,000 for joint filers and $200,000 for all others. The child cannot be over age 16 at year end to be eligible for the credit.

Healthcare Mandate Penalty repealed for 2019. Beginning in **2019**, individuals who do not have health insurance will no longer be required to pay a penalty (but it is still in effect for 2018).

New Credit for Other Dependents (ODC). A new $500 credit is available for dependents who do not qualify for Child Tax Credit. Most dependents listed on the tax return who do not qualify for CTC will now qualify for the smaller ODC, including parents who are claimed as dependents.

Changes to itemized deductions

State and local taxes deduction (SALT) severely limited. The maximum total deduction for state and local income taxes, sales tax, and real estate taxes combined is limited to $10,000 per return ($5,000 for Married Filing Separately returns). This will affect many 2018 tax returns.

Deduction for employee business expenses eliminated. One of the biggest changes is the elimination of almost every deduction for unreimbursed employee business expenses. This means that W-2 employees will no longer be able to deduct their common business expenses (mileage, union dues, supplies, education, home office, travel etc.). This change does not affect self-employed individuals and businesses. Most other miscellaneous expenses are eliminated also (investment expenses, job search, tax prep, safety deposit box).

Deduction for home equity loan interest limited. You can no long deduct the interest paid on a home equity loan unless the loan proceeds were used to buy, build, or improve your home, no matter when the indebtedness was incurred,

Limitation on deduction for home mortgage interest. New mortgage interest will only be deductible on $750,000 ($375,000 if married filing separately) of indebtedness. Higher limitations apply on mortgage interest from indebtedness incurred before December 16, 2017.

Limitation on the deduction for casualty and theft losses. You can no longer deduct a personal casualty or theft loss unless the loss occurred in a federally declared disaster area.

Medical. The deduction threshold for medical expenses is 7.5% of income for all taxpayers.

Standard mileage rate. The 2018 standard mileage rate is 54.5 cents per mile for business miles. The 2019 standard mileage rate is increased to 58 cents per mile.

Additional changes

Qualified Business Income Deduction (QBID). A new deduction for 20% of qualified business income from a trade or business is available in 2018. This includes sole proprietorships, S corporations, partnerships, and some rentals. QBID does not include W-2 wages. The deduction is subject to many limitations, such as income level and type of business. If you have QBID, you can reduce your taxable income, whether you itemize deductions or claim the standard deduction. In its simplest form, if adjusted gross income is under $315,000 for joint filers ($157,500 for singles), you can reduce your business income by 20% before computing your tax.

Alternative Minimum Tax (AMT). Considerably fewer taxpayers will now be subject to AMT.

Depreciation changes. Many assets purchased in 2018 can be deducted immediately, rather than depreciated over several years.

Moving expenses. Beginning January 1, 2018, moving expenses cannot be deducted by most everyone. Active duty members of the U.S. Armed Forces can still deduct moving expenses and exclude reimbursed moving expenses under certain conditions. Additionally, most taxpayers cannot exclude employer reimbursements for moving expenses from income.

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